Tricorp
Federal Credit Union

March 25, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

RE: Advance notice of proposed rulemaking for corporate credit unions

VIA E-MAIL: regcomments@ncua.gov

Dear Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

On behalf of the Board of Directors, Tricorp Federal Credit Union appreciates the opportunity to comment on NCUA's Advanced Notice of Proposed Rulemaking regarding corporate credit unions issued on January 28, 2009. NCUA issued this ANPR soliciting comments on several issues including membership structure, size, capital, permissible investments, management of credit risk and liquidity and corporate governance.

Payment System

Tricorp does not believe there is any evidence that the balance sheet stress, toxic assets, or any other ills that currently exist within US Central and several other corporates was caused in any way by payment systems. In fact, we believe that corporate payment systems are an incredible success story for corporate credit unions and add substantial value and efficiencies to natural person credit unions, the Federal Reserve, numerous payment processors across the country, and the entire financial system. The notion of capital allocations or requirements for distinct lines of business is an appropriate management technique in some instances but is far too detailed and subjective an issue to be mandated by regulation. We believe the focus from a regulatory perspective should be to ensure there is sufficient capital for the aggregate risk exposure assumed by an institution. More refined analysis by management such as risk adjusted return on capital by business lines should be considered for institutions assuming higher degrees of risk or engaging in more complex business lines but capital requirements should conform to Basel standards.

Liquidity and Liquidity Management

Tricorp believes and has demonstrated by how it has conducted itself over its history that being a liquidity provider and centralizing liquidity for its membership is core to our existence. Tricorp further believes that liquidity is a central issue and that managing and preserving liquidity system-wide is part of the mission of all corporate credit unions. Liquidity management, credit risk, and concentration risk are related and central to the OTTI issues and the current crisis.

A great deal of consideration should be given to US Central's role in being the gateway to the market for credit unions and providing vitally important functions such as national settlement and investment alternatives that corporates use to create investment products for their members. Severely limiting their role based on the stressed market that we find ourselves in may actually force more credit unions to go into the market directly and that could lead to more system risk. Having stated this, concentration and credit risk limitations are appropriate considerations for further regulation. Additionally, examination practices in conjunction with regulation changes should be enhanced to focus on these critical issues of risk.

Field of Membership Issues

We believe that competition has led some corporates to assume increased risk in order to pay up for deposits and that the corporate system cannot survive in the awkward middle ground of competing for business while simultaneously cooperating to add aggregate value to the system. The business plans of many corporate credit unions included initiatives that were dramatic often including much more cost or risk than benefit in an attempt to differentiate themselves in the marketplace to gain market share. Returning to a defined field of membership would be very difficult but an alternative would be to require that each credit union contribute capital to any corporate with which it wishes to be a member. Each corporate would have to decide how inclusive or exclusive its services would be for the capital contributed by members and may need to be addressed in regulation.

Expanded Investment Authority

Tricorp believes that Expanded Investment Authority for corporate credit unions other than US Central has led to increased investment risk that has not benefited members and has no demonstrated benefit in terms of rates, pricing and services offered. Tricorp does not believe that the current unrealized loss and OTTI issues are due solely to expanded investment authority. However we do believe that increased risk taking has failed to yield any discernable benefits gained from those authorities. There is more than sufficient evidence to prove that the corporates that do not have expanded investment authority have paid rates and provided products and services that are as competitive as those from corporates with expanded investment authority but without accumulating any risk on their balance sheets notwithstanding the risk in US Central's balance sheet. Finally, Tricorp believes that had the Expanded Authorities been limited to US Central, the corporate system would be exposed to the current market dislocations and global financial crisis but the issue would be nowhere near the calamity currently facing the system today.

Despite our view regarding expanded authorities, we realize that many corporates have built up significant related infrastructure and will certainly make a case to retain their expanded authority. If expanded authorities continue to exist then capital requirements should be increased by the NCUA to align capital with the risk taken. NCUA will need to consider further enhancements to its examination oversight and the concentration limits allowed under expanded authorities.

Expanded investment authority is still necessary for US Central. It is difficult to know predict investment opportunities mayl be available in the future but it would certainly seem that the mortgage-backed and asset-backed securities markets will be much more stringent if desirable at all for US Central and limiting their investment opportunities to just money market instruments for example may not be prudent. Limiting US Central's investment authority too much, will prevent it from fulfilling its role as an aggregator of risk for the system. Again appropriate monitoring, examination oversight and capital will be needed. It is our view that by controlling the flow of risk through US Central, the result will be improved risk mitigation while also providing prudent investment options for member credit unions through their corporate.

Structure: two tiered system

Tricorp does not favor either weakening or changing the scope of US Central's business so that it is eliminated or changed to a CUSO model. If US Central's investment practices are appropriately monitored, then all of the risk in the system could be mitigated through the oversight of US Central's investment policies and procedures. If the current structure is eliminated by removing US Central, then corporates will be going directly to the market and that in our opinion introduces more risk into the system. We believe the current crisis is evidence that more direct market participants with expanded investment authorities is a failed structure. It has been proven by the many corporates currently primarily invested in US Central that have no or minimal unrealized losses on their balance sheets that the current tiered system works if we aggregate investment risk. There will need to be changes to US Central's investment policies and procedures but if the wholesale corporate level is eliminated, then credit risk will become more widespread as more corporates go directly to the market.

There will need to be changes to the investment practices and procedures as well as the oversight of them at US Central. But if it is done properly, it is Tricorp's view that there will be less risk going forward because the flow of risk will be centralized. The changes that are needed include more stringent requirements for credit quality and less reliance on rating agencies and more stringent limitations on concentration risk.

Corporate Capital/Core Capital

Tricorp favors moving to a capital ratio that consists of risk-based core capital. Membership capital does not meet the definition of GAAP capital and it does not correlate to any other form of capital that is recognized by the market so its value is limited. At the same time, it is at risk to member credit unions and has been used to cover losses in the past and it should be in a form that has relevance to the rest of the market. We believe that a four percent tier 1 capital ratio is appropriate with a requirement to meet a higher risk-based requirement that is comparable to the rest of the financial system.

As corporate credit unions do not have adequate leverage ratios today to meet a four percent tier 1 capital ratio, we support converting or raising a form of paid-in-capital to meet the four percent standard. In order to ensure that corporates are not paying up to take deposits away from each other for the sole purpose of gaining market share, every credit union should be required to maintain a level of paid-in-capital in order to be a member of a corporate. The level of paid-in-capital required should be decided by each corporate based on the tier 1 capital needs.

This may be much more difficult to achieve now that NCUA has placed two corporates into conservatorship. There will need to be a significant effort to restore the confidence of credit unions to accomplish the actions described above.

Membership Capital

While Tricorp favors a form of tier 1 capital, we also feel that it may be difficult to have all of the current Membership Capital Shares converted to Tier 1 capital. It would be prudent for corporates to have two components of capital until such time as Membership Capital Shares are no longer needed. A corporate should be required to maintain at least a 4% tier 1 ratio and move to a 6% ratio over time. The amount of time required will depend on the corporate system's ability to restore the confidence of natural person credit unions. Membership capital should be retained as a form of Secondary capital to help a corporate deal with the variability of natural person liquidity. It will be very difficult to never fall below 6% level given that variability so maintaining Member Capital Shares as part of the overall capital requirement will be necessary. On the assumption that RUDE and paid-in-capital will continue to grow, Membership Capital Shares could be eliminated at such time that Tier 1 and risk-based capital ratios are met even with the variability of natural person credit union liquidity.

Risk-based capital and contributed capital requirements

As stated in the previous discussion of member capital shares, Tricorp favors using Basel standards for a risk-based capital requirement. The regulation should require a tier 1 capital ratio of four percent with a risk based minimum of eight percent. Paid-in-capital should be required as a condition of membership in a corporate and it should be calculated as a function of the credit union's asset size. The corporate should have the ability to cap the amount of the paid-in-capital and it should only be adjusted upward upon request from the corporate's board of directors to the NCUA.

Permissible Investments

A corporate credit union should not be allowed to invest in collateralized debt obligations, net interest margin securities and subprime and/or Alt-A asset backed securities. Permissible investments should be further limited to investments that are backed by an agency of the US Government if they are not in US Central. The assumption is that US Central would appropriate restrictions on their permissible investments.

Credit Risk Management

Given the recent poor performance of the rating agencies, it would make sense that all of the rating agencies be considered when determining the credit worthiness of an investment and no investment should be permitted if even one rating agency does not meet the minimum rating requirement for that investment.

Asset Liability Management

Net interest income modeling should be reinstated. Tricorp was concerned when this requirement was dropped by NCUA. We were no longer able to simulate net income which we felt was a good test to perform on an on-going basis.

Corporate Governance

Tricorp believes the confluence of expanded fields of membership, expanded investment authorities at corporate credit unions below US Central, and the resulting increasing competition has created an environment of toxic governance at US Central. The evolution of business models followed roughly 2 paths. One model was where corporate credit unions relied on the economies of scale already within the system at US Central and the other model where corporate credit unions attempted to recreate their own economies of scale and become independent of US Central. The obvious reasoning for becoming independent of US Central was differentiation to gain market share which placed these different models into fierce competition. The US Central board evolved into allocated board seats for these divergent business models effectively having the board be comprised of fierce self-interested competitors. Both sides were well-meaning people placed in a situation of conflicting self-interest and fiduciary responsibility to US Central. This must be changed.

Tricorp agrees that there should be an appropriate level of experience and expertise for an individual to be a director of a corporate credit union. Tricorp has already changed its bylaws in this regard by requiring that all board members be a member of a member credit union's senior management as defined in NCUA regulations. Many current board members state that it takes at least one term to truly understand the inner workings of a corporate credit union, term limits can have the unintended consequence of having inexperienced board members unless the limit spans for several terms. Compensation for corporate directors will jeopardize the tax exempt status of corporates and should not be considered.

Based on the unique nature of corporates, Tricorp does not favor having directors from outside the industry. As stated above we do support minimum qualifications and training requirements for corporate directors. Training requirements should include ALM training and training on the types of investments the corporate makes. Tricorp believes it is appropriate to have representation from natural person credit unions since such directors have a perspective only available from working at that level.

<u>Other ANPR Issues</u>

The ANPR asks for comments regarding the disclosure of corporate executives compensation. Tricorp favors utilizing the same requirements as natural person credit unions.

Regarding the previously announced intention of NCUA to merge the Office of Corporate Credit Unions with another office within the Agency, Tricorp believes that it is important to maintain a separate and distinct Office of Corporate Credit Unions. The unique role and services of corporates requires a level of attention by the Agency that should not be integrated with other duties. The unique nature of corporates requires a separate and distinct office within the agency that can provide for on-going examiner training of examinations skills and expertise. Having duties that are shared with other agency duties in our view will detract from the very unique skills that are needed for proper oversight of corporate credit unions.

On behalf of the Board of Directors and all of us at Tricorp, I want to thank you for the opportunity to comment on the ANPR. We look forward to strengthening and improving the corporate credit union system so that we are able to appropriately manage through tough economic circumstances in the future.

Sincerely

Stephen A Roy

Stephen A. Roy
President/CEO